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DR. KENNETH M. STONE, CPA
Internal Audit Executive

February 28, 2013

FILE COPY

Rhonda Johnston, Executive Director
CREATE, Inc.
620 North Grand
St. Louis, MO 63108

RE: CREATE, Inc. (Project #2013-AHC06)

Dear Ms. Johnston:

Enclosed is a report of our fiscal monitoring review of CREATE, Inc., for the period June 1, 2012 through September 30, 2012. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of CREATE, Inc. Fieldwork was completed on December 20, 2012.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Affordable Housing Commission (AHC) to provide fiscal monitoring to all grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure

cc: Angela M. Conley, Executive Director, Affordable Housing Commission



CITY OF ST. LOUIS

AFFORDABLE HOUSING COMMISSION (AHC)

CREATE, INC.

CONTRACTS #23-12G

FISCAL MONITORING REVIEW

JUNE 1, 2012 THROUGH SEPTEMBER 30, 2012

PROJECT #2013-AHC06

DATE ISSUED: February 28, 2013

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
AFFORDABLE HOUSING COMMISSION (AHC)
CREATE, INC.
FISCAL MONITORING REVIEW
JUNE 1, 2012 THROUGH SEPTEMBER 30, 2012**

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INTRODUCTION

Background

Contract Name: CREATE, Inc.

Contract Numbers: 23-12G

Contract Periods: June 1, 2012 through September 30, 2012

Contract Amounts: \$64,000

This contract provides funds from the Affordable Housing Commission (AHC) to CREATE, Inc., (Agency) to partially cover cost to provide programming and administrative costs for the Agency. The Agency provides services such as non-emergency transportation, meal subsidies, educational seminars, health and wellness classes, resident entertainment, and recreational materials to residents fifty-five and older located at various independent senior living facilities throughout the City of St. Louis.

Purpose

The purpose of the review was to determine the Agency's compliance with federal, state, and local AHC requirements for the period June 1, 2012 through September 30, 2012, and make recommendations for improvements, as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grant administered by AHC. Evidence was tested supporting the reports the Agency submitted and other procedures were performed, as considered necessary.

Exit Conference

An exit conference was conducted on January 24, 2013. The Agency was represented at the exit conference by the Executive Director. The Internal Audit Section was represented by the Auditor-In-Charge and the Executive Director of Internal Audit.

Management's Responses

Management's responses to the observations and recommendations identified in this report were received from the Agency on February 5, 2013. These responses have been incorporated into the report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with local AHC requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2010-AHC01, issued November 17, 2010, contained the following observations:

1. Opportunity to document compliance with payroll tax requirements (**Not Resolved**)
2. Opportunity to improve the agency's accounting system (**Not Resolved**)
3. Opportunity to improve oversight of payroll procedures (**Resolved**)

Summary of Current Observations

Recommendations were made for the following observations, which if implemented, could assist the Agency in fully complying with local AHC requirements.

1. Opportunity to identify all sources of funds
2. Opportunity to address going concern issue
3. Opportunity to document compliance with tax requirements (**Repeated**)
4. Opportunity to improve the agency's accounting system (**Repeated**)
5. Opportunity to ensure accurate reporting of workers
6. Opportunity to request reimbursement for only allowable expenditures (questioned cost \$3,512.28)
7. Opportunity to submit adequate supporting documentation for reimbursement request (question cost \$2,828.52)

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Identify All Source Of Funds

A review of the Agency's project budget was performed to ensure all sources of funds identified on the contract were accurate. A review of the Agency's financial ledger revealed that the Agency primary source of funding was from the AHC funds. No funds identified on the financial ledger were from the Agency's Equity Partner identified on the contract.

Section 10, of the contract agreement states if the attached budget includes funding from other sources, the Agency is responsible for securing and expending such funding as detailed in the attached budget. In addition, EXHIBIT B of the contract requires the contracting Agency to disclose all sources of funding available to the contracting Agency for the project funded in the agreement.

It appears the Agency had issues securing all the agreed upon funding on the approved budget.

A failure to disclose any sources of funds from the approved budget can put the Agency at risk of termination of this agreement and repayment of the funding.

Recommendation

It is recommended that the Agency ensure that all sources of funds being used for the project are secured and accurately detailed on the approved budget. In addition, it is recommended that the Agency prepare a general ledger that clearly provides a distinction between the funds received from all sources.

Management's Response

Management acknowledges and agrees that, at the current time, the only source of funds for the organization comes from the Affordable Housing Commission. Management has applied for multiple grants during the 2012 fiscal year. We ultimately received only one additional grant in the amount of \$4,000, which was identified on the general ledger used for organizational accounting as Des Peres Baptist Church Fund for Inner City Ministries. We continue to seek grants from multiple foundations, including reapplying for Operational Funding from the Missouri Foundation for Health.

In addition to applying for multiple grants, CREATE has begun to seek additional opportunities to earn capital. During Fall of 2012, we applied to State of Missouri to become an In-Home Services provider, which would provide CREATE with Medicaid reimbursement opportunities. The application process is ongoing. Additionally, we have

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applied to the State of Missouri to become a certified transportation provider. This would also provide CREATE with reimbursement opportunities for providing services to clients not residing within our current service area.

Any new sources of funds that are secured will be clearly identified on the organizations accounting ledger. The ledger currently in use was developed and recommended by our accountants Rubin Brown. We began using this ledger after our 2010 audit recommended that we clarify our accounting practices.

2. Opportunity To Address Going Concern Issue

A review of the Agency's financial ledger revealed that the Agency's primary source of revenue was from AHC funds. Per discussion with the Executive Director, the employees' salaries were contingent on AHC reimbursements. In addition, it was revealed that the Agency had not paid for accounting services provided from their accounting firm, including tax filings from prior year.

Additional funds provide assurance that the Agency has resources needed in order to continue to operate for the foreseeable future and meet the Agency's objectives.

It was noted by the Executive Director that the Agency has another funding source however it takes considerable time before they are reimbursed for expenditures.

With limit funds to pay employees and services the Agency risks not being able to operate and perform the Agency's objectives.

Recommendations

It is recommended that the Agency seek out additional streams of revenue such as applying to another grant funding source, or preparing a fundraising strategy to increase donations.

Management's Response

CREATE, Inc. has begun to explore opportunities to become a licensed transportation provider for the state of Missouri through its Medicaid reimbursement entity, Logistic Care. We are currently completing the necessary documentation in order to secure licensure with the State of Missouri. This documentation will be submitted to the state within the month. Also, funding has been requested through MEHTAP, MODOTS transportation funding source which assists nonprofits that provide transportation services to the senior and disabled populations.

CREATE, Inc. will also seek out additional fund raising opportunities by continuing to request donations from other corporations and vendors that partner with us to provide services to the senior and disabled populations.

Management agrees with audit findings. Please refer to Management Response #1.

3. Opportunity To Document Compliance With Tax Requirements

A review of the Agency's payroll taxes and preparation of applicable tax returns revealed that the Agency did not document compliance with tax requirements. The Agency indicated that the workers at the Agency were contract workers and not employees, and filed a Form 1099 for each. It was also revealed that the Agency had an accounting firm prepare the Agency's 990 Forms. The Agency however was not able to provide copies of either the most current 1099's or 1096 or 990 Forms.

Maintaining documentation that applicable tax liabilities were complied with is necessary to ensure compliance with federal, state, and local laws.

The Agency's Executive Director indicated that the accounting firm who prepared the Agency's 990 was holding on to the tax forms until all fees were paid.

Due to the Agency's failure to pay its accounting fees, it appears the Agency may have failed to submit all required taxes timely. This could subject the Agency to penalties and interest charges. Such charges could also jeopardize the Agency's ability to continue providing the services funded by the contract.

Recommendation

It is recommended that the Agency pay all fees to ensure submission of all required tax forms. In addition, it is recommended that the Agency obtain and verify timely payment of all taxes. The Agency should maintain copies of all tax records for a minimum of 4 years.

Management's Response

CREATE, Inc. has arranged a payment schedule with Rubin-Brown to pay for their services for doing taxes for 2011. Rubin-Brown has agreed to submit taxes for 2011 and to begin preparing taxes for 2012 tax year as well. In addition to tax preparation, an agreement has also been established to maintain bookkeeping services as well as a general ledger for CREATE, Inc's day to day bookkeeping records.

Tax documentation for 2011 will be available for review within the month of February.

Management acknowledges that contract worker's 1099 for fiscal year 2011 were not available at the initial face-to-face meeting. An organization donates storage space to CREATE, and the indicated 1099s were at that storage location.

The organization does retain all tax records for a minimum four years. Due to limited storage space at our primary office, most documents are kept at a separate off-site storage location. Auditors or AHC staff can access these documents whenever necessary.

4. Opportunity To Improve The Agency's Accounting System

A review of the Agency's accounting system revealed that the Agency did not maintain an adequate accounting system in accordance with generally accepted accounting principles (GAAP), as required by Section 9 of the Agency's contract. The Agency was not able to provide a general ledger or financial statements, including balance sheets and income statements.

Section 9 of the contract requires the Agency to establish an adequate accounting system in accordance with GAAP. Sound accounting practices requires the Agency to maintain adequate accounting records and prepare reports of its financial activities.

The Agency's Executive Director indicated that the accounting firm who prepared the accounting reports was holding on to the information until all fees related to the Agency's taxes were paid.

Failure to maintain adequate accounting records may increase the Agency's risk of errors or misappropriation of funds going undetected. It also, may provide the board of directors with unreliable financial information that will not allow them to perform an oversight of the financial condition of the Agency. In addition, failure to comply with provisions of the contract could result in other sanctions as determined by AHC.

Recommendation

It is recommended the Agency establish and maintain a system of accounting that is in accordance with generally accepted accounting principles. The system should include the following:

- A general ledger that shows a clear distinction between accounts used to record revenues and expenditures of funds received from all sources.
- Monthly financial statements for review by the Agency's Executive Director and board of directors. At minimum, the financial statements should include:
 1. A balance sheet to reflect the Agency's financial position.
 2. An income statement to summarize the results of the period and year-to-date revenue and expense transactions.

Management's Response

Management acknowledges and accepts the audit finding. The accounting report/general ledger that is used by the organization was created and recommended for use by Rubin Brown, the organization's tax preparer, based on comments made in the 2012

organizational audit. We will work with Rubin Brown to have the monthly accounting report/general ledger updated to include a clear distinction between accounts used to record revenues and expenditures of funds received from all sources, as well as develop a process of creating monthly statements containing a balance sheet and income statement.

5. Opportunity To Ensure Accurate Reporting Of Workers

A review was performed of the employment contracts for workers with the Agency to ensure proper classification of worker status. Per review of the Agency's employment contracts it appears the workers may have some characteristics related to an employee such as the services being performed are integral to the business operations, the business pays the travel expenses, and the business as a right to discharge the worker at will.

To be considered an independent contractor or an employee there are IRS requirements. Three elements to consider are the Agency's behavioral control, financial control, and type of relationship in determining the workers proper classification.

The Agency indicated that the workers of the Agency are contract workers and not employees, and filed Forms 1099 and 1096. However, no forms were obtained.

The Agency may not be paying all the required payroll taxes. In addition, without clearing identifying the Agency's workers it could be required to pay additional tax penalties.

Recommendation

It is recommended that the Agency consult a tax or legal expert in this tax matter, or fill out and submit Form SS-8 to the IRS to ensure the proper classification for the Agency's workers.

Management's Response

Workers contract were developed through input from legal counsel.

6. Opportunity To Request Reimbursement For Only Allowable Expenditures (Questioned Cost \$3,512.28)

A review of expenditures for the months of June, July, August and September 2012 was performed to ensure that costs reimbursed were allowable under the terms of the contract. Review of the contract budget revealed that the Agency's non-payroll expenditures include only gas and car maintenance. It was observed that a monthly insurance premium of \$203.07 was reimbursed for each of the four months reviewed. This resulted in a questioned cost of \$812.28.

In addition, a review of the Office Assistant/Driver June payroll reimbursements for the pay periods June 1, June 8, and June 22, 2012; revealed unallowable cost, which resulted in questioned cost of \$2,700.00. The contract for the driver had the following issues:

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- The hourly rate on the contract was \$10 per hour, and the rates on the time sheets were \$14 per hour.
- The start date on the contract was November 5, 2012, and the payroll payments for the driver were for June 2012.
- The contract was not signed by the employer.

The total questioned cost for both the non-payroll and payroll expenditures was \$3,512.28.

Section 5 of the contract requires the Agency to expend funding in accordance with the Budget. The Agency shall not deviate from the Budget without the prior written approval of AHC. In addition, section 11 of the contract requires the Agency to maintain records and accounts deemed necessary to assure the proper accounting of all funds.

It appears the Agency did not have controls in place to ensure that expenditures requested for reimbursement were allowable under the contract terms.

This can result in the Agency having to repay the funds not spent in accordance with the terms of the contract agreement or sanctions being imposed on the Agency.

Recommendation

It is recommended the Agency repay the questioned cost of \$3,512.28. It is also recommended that the Agency implement control procedures, such as a supervisory review, to ensure that all expenditures are accurate and allowable in accordance with the terms of the contract.

Management's Response

Vehicle insurance cost are allowable reimbursement costs as outlined in the AHC contract, EXHIBIT A, Direct Program Cost Budget. Vehicle insurance costs are reimbursable costs within the Gas and Vehicle line item of the budget.

The Office Assistant/Driver worked under two separate contracts within fiscal year 2012 for the organization. The Office Assistant/Driver tendered her resignation during June 2012. Under the contract she was paid at a rate of \$14 an hour. Eventually, she began to work for the organization, again, later that year. Her seconded contract which was extended later that year, was for a rate of \$10 an hour. Due to paperwork being stored at a different location, the original executed contract was not available.

7. Opportunity To Submit Adequate Supporting Documentation For Reimbursement Requests (Questioned Cost \$2,828.52)

The Agency's reimbursement requests for the months of June, July, August, and September 2012 were reviewed. A review of the supporting documentation submitted for non-payroll

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expenditures revealed no invoices for the non-payroll expenditures in August resulting in a questioned cost of \$332.52.

In addition, a review of the supporting documentation for payroll expenditures was performed, which included a review of the contracts, timesheets, and check payments for employees. Based on the review, the following is a listing of unsupported expenditures:

- Check #2701 for \$1,000 was dated July 20, 2012, which was issued 9 days prior to the end of the pay period, July 29, 2012. In addition, the amount on the timesheet was for \$1,008, which was \$8 more than the check payment. This resulted in questioned cost of \$1,000.
- A timesheet for pay period end August 12, 2012 revealed pay for \$504, however the payment check #2702 dated August 13, 2012 was for \$1,000. This resulted in questioned cost of \$496.
- Check #2714 dated September 28, 2012 had no time sheet to support the payment of \$1,000. This resulted in questioned cost of \$1,000.

The total questioned cost for payroll expenditures was \$2,496.00. This resulted in a total questioned cost of \$2,828.52 for both payroll and non-payroll expenditures. The review of payroll expenditures also revealed the following issues:

- The Agency could not locate the original signed time sheets. Time sheets used for review were copies. IAS could not verify its accuracy.
- Timesheets for pay period end August 26, 2012 and September 9, 2012 showed total pay of \$504 for each pay period. Check #2712 dated September 14, 2012 was for \$1,000, which was \$8 less than the timesheets.
- Payroll payments to the Executive Director were reviewed with the contract. Check #2693 dated June 23, 2012 was for \$1,300. Check #2699 dated June 6, 2012 was for \$1,525. Check #2703 dated June 20, 2012 was for \$1,500. Check #2704 dated August 3, 2012 was for \$1,500. The contract revealed that the Executive Director would be paid monthly at \$3,051.60. Payments appear inconsistent with contract terms.
- Check #2711 for \$1,525 was paid on September 14, 2012 and check #2710 for \$1,525 was paid after that date on September 28, 2012.

Section 8 of the contract requires the Agency to make available to the Commission all data necessary to review and verify the accuracy of the reports. Such data shall include all backup documentation related to the financial reports. In addition, Section 9 requires the Agency to establish an adequate accounting system.

It appears the Agency did not have controls in place to ensure that proper documentation was available and correct for all expenditures requested for reimbursement.

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Not providing or providing inaccurate information can lead to errors or misappropriation of funds. This could lead to having to repay the funds or sanctions being imposed on the Agency.

Recommendations

It is recommended that Agency discuss the question cost \$2,828.52 with AHC. It is also recommended that the Agency improve internal controls to ensure that all required supporting documents are submitted and made available with the reimbursement requests. In addition, there should be a review process before all checks are written and finalized for payment ensuring correctness of amounts and supporting documentation.

Management's Response

After the abrupt resignation of one of the contract workers management became aware that multiple original documents, including signed payroll and other receipts for reimbursable expenses, were removed from the CREATE office or destroyed by her without managements permission. Management made every effort to maintain copies of signed documents, but a few of these documents were not copied/scanned before they were removed from our offices.

Regarding check #2701 for \$1,000 dated July 20, 2012, according to our records the pay period in question was for 7/2/2012 through 7/13/2012 and the pay date was 7/20/2012 the date of the check.

Regarding timesheets for pay period ending August 12, 2012, initially CREATE, Inc. submitted invoices for reimbursement of payroll. Under the recommendation of our assigned Affordable Housing Commission representative, it was recommended that new timesheets be incorporated into the reimbursement process. Initially timesheets were submitted on a weekly basis. Upon further direction from our AHC representative, timesheets were eventually submitted on a bi-weekly basis.

All documentation which was used remained in the file and was subsequently obtained during the audit. The timesheet which should have been taken into consideration for pay period ending August 12, 2012 began on 7/30/2012 and ended on 8/10/2012. During the pay period, the contract worker worked 72 hours and was paid a rate of \$14/hr.

Regarding check #2714, dated September 28, 2012, this check was for the same contract worker, who subsequently resigned. Pay period 8/27/2012 through 9/7/2012 was for her final weeks worked for the organization. Contract worker quit abruptly and refused to sign any further timesheets.

We agree with the recommendations and will make great efforts to improve upon internal controls and implement measures to make improvements that ensure documents are submitted correctly and made available with reimbursement requests. We will also

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implement measures to help ensure that documents are not removed or destroyed without management's permission.